



Don't Underrate Term Insurance

It can be a good, cheap solution for many clients.

[Bill Boersma](#) | Oct 26, 2017

A younger attorney asked me some time ago to get some term numbers for her clients. Her question was “Is this premium monthly or annual?” When I told her it was annual, her next comment was “Could you quote some term for me and my husband?”

Pretty much every statistic shows most people are meaningfully underinsured. Sure, this is easy to say when it's someone else's money you are spending, however, I don't think most people understand just how cheap term insurance is. Yes, some people can't get it, and some people just don't have any money, but that isn't the case in most situations.

As an insurance guy, I have millions of term. (Yes, I have some permanent as well for charitable and estate tax planning but it's mostly term.) I acquired most of it when I was relatively young, and it's all at the preferred best rates and it was ridiculously inexpensive. I have a few million on my wife who doesn't have an earned income because I knew what it would take to raise the kids and keep a house if she was gone.

Here's my business succession plan for now: a couple million of term for my employees and the freedom to decide if they want to make a run of it or cash the check, lock the doors and go their merry way.

Term on Top of Installment Buy-Outs

I've recommended to many business owners with installment buy-outs at death to buy term insurance anyway to go straight to the spouse so if the successive management runs the company into the ground, there's no worry. In a worst case scenario, the spouse gets everything, and in a best case scenario, the spouse gets twice everything. That's just comforting. After all, a 45-year-old shareholder could get a 20-year policy for a premium so low the 20 years of cumulative premiums is equal to only two months of a 120-month buy-out. I certainly wouldn't risk it.

Underinsured

Let's say I have a buddy making \$350,000. After tax and retirement contributions, you know the family is living off of at least \$200,000. He has a \$1 million term policy and tells me his wife can pay off the mortgage, and she and the kids will be all set. What a moron! She doesn't work outside the home so where's the money for food, property taxes, clothes, entertainment, schooling, retirement and so on going to come from? They'll burn through the checking account and the 401(k) in a handful of years at best.

Everyone wants to know a rule of thumb, so I'll share my simple one. A million bucks isn't a million bucks. It's \$50,000 of income. People used to say that was too conservative, and now they say it's too aggressive, but I'm not changing my numbers. If my buddy kicks the bucket, his family is still going to need/want the \$200,000. He needs at least \$4 million of insurance less how much income producing assets are currently there—at least! What about inflation, what about college education, what about income taxes on earnings and what about saving for retirement, etc.?

He could get a million or two for a thousand bucks. Really! If that's not worth it, then we have bigger issues to deal with.

Money Losing Proposition?

The problem with selling term insurance is that it's so cheap, at least for young people, agents can't make any money selling it. It's true. It's hardly worth the time to take an application and have it underwritten. It's often a money-losing proposition. That's why the new agents in the industry are taught to sell permanent insurance to newlyweds and new parents and anyone else who will buy it. It's more profitable for the agents and the carriers although it often does a disservice to these young people when what they really need is a boatload of cheap term and not spend the same money on a fraction of the death benefit for cash value insurance.

Good for Client's Kids/Grandkids

I urge my business owner clients with kids and/or grandkids in their 20s and 30s to help buy the greatest amount of term insurance we can talk an underwriter into issuing on the kids. It's not that they need that much right now but the insurance companies are practically giving it away, and they'll likely need it later, and the kids are probably very healthy now. For mom and pop, who are paying \$10,000, \$25,000 \$100,000 or more annually on their own premiums, the few hundred or few thousand to get a

few million on the kids is nothing. It's almost silly not to. It's like checking out at a home improvement warehouse with \$500 of materials on your cart and grabbing a \$5 knife or flashlight. Do you have to have it? Of course not. Does the cost really make a difference? No. Might you be very happy you have it some time in the future? Yes. Besides, a certain percentage of these kids aren't going to be able to obtain insurance on a favorable basis, or even at all, if they wait until they need it. I see this regularly. It might not even be about their health. The kids may be locked out of the best classes because a parent was diagnosed with a cardiac or cancer issue. Yes, that's the way it works. So, what do these numbers look like? Here is a chart for \$1 million of coverage assuming a reasonably healthy person but not the preferred best class.

Death Benefit: \$1,000,000
U/W Class: Preferred Non Smoker

Age	Term	Premium	
		Male	Female
25	10	\$325	\$265
	20	\$535	\$394
	30	\$820	\$605
35	10	\$335	\$280
	20	\$584	\$484
	30	\$944	\$785
45	10	\$725	\$630
	20	\$1,275	\$965
	30	\$2,254	\$1,625
55	10	\$1,669	\$1,359
	20	\$3,205	\$2,265
	30	\$6,584	\$4,432
65	10	\$5,444	\$3,245
	20	\$10,705	\$6,975
75	10	\$18,080	\$11,215

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See what I mean? Especially for the young people. Also, as I've written about before, this is a much better deal than most of the association term to be found in the market. It's way better than any mortgage or credit coverage you'll be marketed.

Republican Tax Plan

What about the Republican tax plan just released? You know that your clients will be grasping at straws to not buy life insurance they think they don't have to. Frankly, I think this is a big mistake. After all, we were only a few votes away from a Democrat president with a plan to go the other way with the exemption. Does anyone really think that if the estate tax goes away today that it would be a good idea to build planning around the fact that it won't be around in 20, 30 or 40 years?

For a 55-year-old guy or couple who's putting off a \$10,000,000 permanent insurance purchase, that might cost him over a hundred grand a year, how about \$15,000 to \$20,000/year for a \$10 million term purchase to hedge his bets? Buy \$10 million on his spouse as well to be able to convert to \$10 million or \$20 million of survivor coverage if need be down the road.

To sound like an NPR fund raiser "for the cost of a cup of coffee a day you can have a million or two of insurance to take care of your loved ones if something happens to you." Again, except for those with health issues that prevent insurability, I find it frustrating to hear about the fundraisers for a young family who lost a breadwinner. Three hundred dollars gets you a million of coverage on a 35-year old. How many times did that same person spend \$300 a year on beer, cable, phone upgrade, eating out, new purse or pair of shoes, and fuel for the bass boat or snowmobile? You get the picture.

More disconcertingly, the U.S. government explicitly supports irresponsibility. With every national tragedy of suitable proportions, a compensation fund is formed to distribute benefits to the victims. Did you know that when a value is put on someone's life, Congress mandates a reduction in that number by how much life insurance the individual had? On their belief, be responsible and take care of yourself and your family, and we'll walk away from you; be irresponsible and we'll rush in to take care of you.

This isn't something you should overthink. Don't underrate term insurance. For many it's been a fundamental underpinning of financial security for generations for a reason.

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